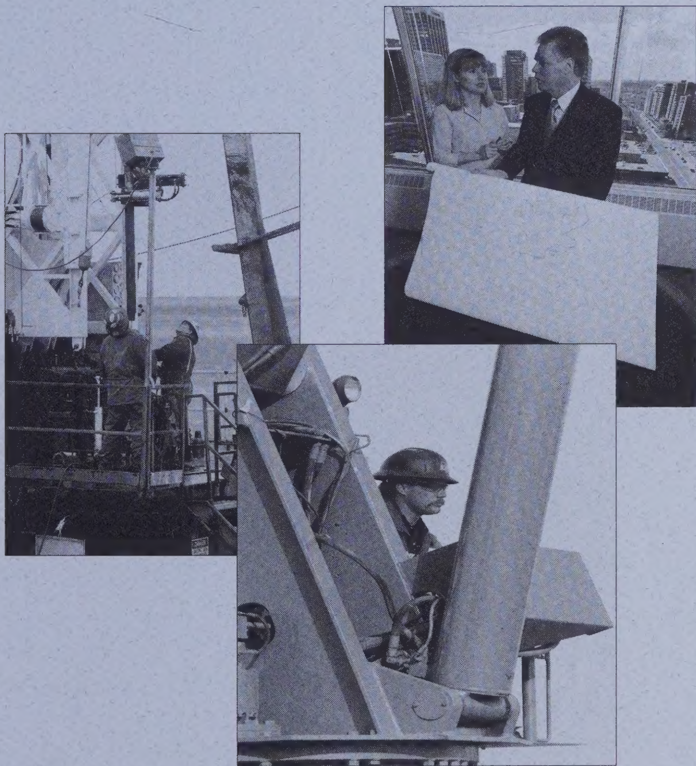
2001
Annual Report



MERA PETROLEUMS INC.

Mera Petroleums Inc.

Mera Petroleums Inc. is a Calgary-based energy company. Since commencing operations in 1994, we have built a solid base of properties with long lives and strong cash flows. Our focus is on acquiring overlooked, gas-rich lands in western Canada and overseas and moving aggressively to explore and develop them in a fiscally prudent and innovative manner that enhances shareholder value. We are committed to retaining large working interests and to operating projects wherever practical.

Our production in Saskatchewan and Alberta averaged 322 barrels of oil equivalent per day (boepd) in 2001, consisting of 95% natural gas and 5% associated NGL's. We exited the year at 266 boepd. In northern Colombia, South America, Mera is sitting on a huge gas play, where the risks are shared with joint venture partners.

Mera is listed on the TSX Venture Exchange under the symbol **MPR.**

Mera is named for the 21,757-foot Nepalese peak, near Mt. Everest, that company President Robert McLeay climbed in 1993.

2001 Achievements

- At Leader, Saskatchewan, drilled and participated in 46 wells, greatly expanded the land base and launched shallow gas production
- Formal submission of environmental report for Salinas concession in northern Colombia
- 13% increase in revenues to a record $3.7 million
- Cash flow remained flat at $1.9 million or $0.25 per share
- Decrease in net income to ($1,147,960) for a loss of ($0.11 per share)
- Capital expenditures of $2.7 million, down from $3.0 million in 2000

Highlights

	2001	2000	% Change
Financial			
Gross revenues	**$3,718,416**	$3,288,397	13
Cash flow from operations	**$1,902,660**	$1,905,514	—
Cash flow per share	**$0.25**	$0.25	—
Net income (loss)	**($1,147,960)***	$829,694	(238)
Net income (loss) per share	**($0.15)***	$0.11	(236)
Capital expenditures	**$2,695,047**	$3,009,538	(10)
Total debt	**$2,084,805**	$1,128,773	85
Shareholders' equity	**$2,307,527**	$3,416,206	(32)
Shares outstanding			
~ Basic, at year end	**7,775,440**	7,552,874	3
~ Basic, weighted average	**7,557,779**	7,602,330	(1)
~ Options outstanding, at year end	**1,097,000**	744,000	47

* *After reflecting a ceiling test provision of $2,999,805 ($1,830,003, or $0.24 per share after taxes).*

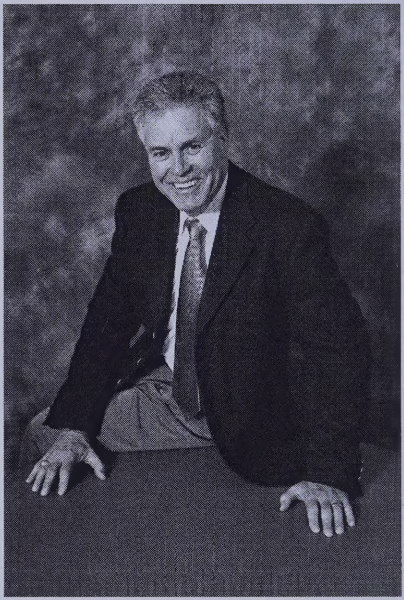
Operating			
Average daily production			
~ Gas (mcf per day)	**1,896**	1,752	8
~ Oil & NGLs	**6**	20	(70)
~ Combined (boepd)	**322**	312	3
~ Exit rate	**266**	400	(33)
Average selling price			
~ Gas (per mcf)	**$5.22**	$4.61	13
~ Oil & NGLs (per bbl)	**$29.50**	$41.60	(29)
Production expenses (per boe)	**$3.60**	$2.04	76
Field netbacks (per boe)	**$23.43**	$21.72	8

Throughout this annual report, barrels of oil equivalent (boe) have been calculated on an energy equivalency basis of 6 thousand cubic feet (mcf) of natural gas being equivalent to 1 barrel of oil or natural gas liquids.

President's Message

Two thousand and one was a year of major adjustment for both Mera Petroleums Inc. and the industry as a whole. No company in the energy sector was unaffected by the sudden drop in natural gas prices from a high of $10.35 in January to a low of $2.38/mcf in September of last year. Suddenly every producer was forced to negotiate a tightrope with drastically reduced revenues on the one side and significantly increased administration and development costs borne out of optimistic exploration budgets and equipment shortages on the other. These challenges, coupled with the financial community's more conservative lending policies and a small cap market weakened by the Enron scandal, provided a true test of every company's management metal.

Our year-end results reflect the severity of the adjustments that had to be made. Gross revenues were up 13% to $3.7 million, compared to a 77% increase in the year 2000. Net income, which rose to $830,000 in 2000, came in as a negative $1.1 million this year due to a ceiling test write down of $1.8 million after tax considerations were taken into account. Cash flow for operations stayed level at $1.9 million. These figures are a direct result of gas prices dropping from $12.00 in late 2000 to $5.38 per mcf in early 2001 and yet another decline to the $2.38 to $3.09 range between September and December 2001.



Robert McLeay, P.Geol.
President and Chief Executive Officer

Another challenge unique to Mera – and also impacting these figures -- was a major drop in production due to declines from two Viking wells and corresponding increase in water production in Leader, Saskatchewan, as well as compressor problems at our Darwin operation in northern Alberta. Although the average for the year rose by 3% to 322 boepd, production actually dropped from 400 boepd at year-end 2000 to 266 boepd for year-end 2001, a decline of 33%.

Regrettably all of these downturns -- coupled with an increasingly conservative approach to engineering valuations on the heels of the Enron scandal -- have had a severe impact on our asset value and share prices. Our year-end share price of $0.50 was well below its underlying net asset value. Charting the price of Mera's stock against gas prices shows a one to one correlation, as the gas price dropped, the stock price followed. Although the gas price has rebounded in 2002 from $3.00/mcf in March to $4.10/mcf in May, and is forecasted to rise to $4.45/mcf by June 2002, the share price is likely to remain flat until the market sees the impact of both higher gas prices and increased production in mid year statements. Such market conditions made it extremely difficult to raise the capital needed to fully tap into the tremendous potential of our properties, particularly in Colombia, South America and Leader in southwest Saskatchewan.

> We have developed a 6 point plan for recovery, which will restore Mera's production and revenue volumes and substantially reduce our debt load...

As the scope and depth of adjustments necessary for both the industry and Mera became apparent, the company realized the only way to survive was firstly, to be honest and forthright with its stakeholders, and secondly to develop a move forward plan to accommodate changing market conditions and its production realities. To this end we developed the following 6 point plan for recovery, which will restore Mera's production and revenue volumes and substantially reduce our debt load, positioning your company for robust growth by the close of the third quarter of this fiscal year. This plan includes:

1) Initiation of a private placement to pay down debt;

2) Refinancing through new leasing and banking arrangements;

3) Reduction in production and general and administration expenses;

4) Selling of non-essential assets;

5) Increased gas holdings;

6) Enhanced production through well workovers and low-cost farmouts.

Debt reduction

Whether the industry is in a period of rapid growth or decline Mera has always prided itself on a philosophy of fiscal prudence. For the company's first five years of operation we remained debt free and approached the use of our new line of credit cautiously in August of 1999. Last year, for example, we were able to finance an aggressive $2.7 million drilling and completion program at Leader through cash flow and some use of our line of credit. In fact, we restricted our line of credit use to short term financing between August 1999 and March 2001. It was only when we ran into AFE overruns, at the same time as declines in natural gas prices, production and share prices in the last two quarters of 2001, that we were forced to dip into our line of credit to cover all of our drilling expenses. Disappointing drilling results and a shortage of cash flow made it impossible for us to retire the debt as planned. As a result Mera's overall debt load came to $2.0 million by the 2001 year-end, consisting of a $0.2 million Darwin gas plant lease and a $1.85 million line of credit.

When we realized the sharp impact of AFE overruns, disappointing drilling and production results and capital market trends on our operations and expected future growth rates, we engaged in a number of activities to streamline operations and activities. Mera expects to see the full effect of these initiatives in the 2002 year beginning with substantial reductions in our debt. Through the initiation of a private placement we expect to be able to make payments of $150,000 between April 30 and June 30, 2002 and another one time payment of $500,000 is expected by June 30, 2002, bringing our total paydown to $650,000, and leaving us with an outstanding balance of $1.3 million. This rapid reduction is being made possible by a private placement for 2.0 million shares at $0.36/share closing June 30, 2002. Although we understand that this offering causes considerable dilution to the existing shareholders, company management and its directors deemed it necessary to comply with bank demands and market conditions.

Whether the industry is in a period of rapid growth or decline Mera has always prided itself on a philosophy of fiscal prudence...

Refinancing

There is no question that many of the difficulties Mera experienced in attempting to adjust to the new gas pricing and production realities occurred because of the National Bank's new lending policies based on a projected 2002 gas price of $3.25/mcf and decreased engineering values emanating from the Enron scandal. Although the National assures us that they are not pulling out of western Canada, we are not encouraged by recent, industry-wide line of credit claw backs. Our $1.3 million line of credit limit is a considerable reduction from that of $3.5 million a year ago. We are therefore not only working on refinancing our Darwin gas plant in the coming year, but we are currently seeking out new financing arrangements.

Mera's Board of Directors from left to right: Donald Getty, O.C., Robert McLeay, P.Geol., Ron Pierce, P.Geol., Phil Lawton, C.A. and Dave Werklund.

Expense reductions

Mera has always prided itself on maintaining one of the industry's lowest operating costs – an average of $2.04 per boe in 2000. That figure rose to an average of $3.60/boe in August 2001 and increased again to $6.00/boe by September 2001 due to reduced production and revenues and sharply increased maintenance and compression costs affecting most properties. To return operating costs to Mera standards we have taken a number of steps. In Leader we decommissioned our gas facility and joined with our joint venture partner in contracting out well operating and custom processing, for both our Viking and shallow gas wells, to a $1.2 million, 5-7 mmcfpd, third party plant.

For this new arrangement Mera pays an all-inclusive fee of $0.45/mcf for compression, dehydration, well operating and all chemicals. Mera and a joint venture partner have an option to purchase this facility at a later date. To cut disposal and haulage costs we are utilizing a nearby water disposal well installed by a third party. We have also drastically scaled back expenses related to our Salinas concession in Guajira, Colombia.

In addition, we took immediate action to substantially reduce our fixed costs and create a business organization more aligned to the new industry and economic environment. At our Calgary office we have cut back on consultant hours and fees, supplier and equipment costs, management and accountant fees. As a result of these initiatives we expect to show a 30% reduction in general and administration expenses for 2002.

Asset sell off

At the same time Mera has launched a program to dispose of approximately $100,000 in miscellaneous surplus assets. So far we sold some of our processing equipment and returned a rental compressor and separator in Leader. We continue to market various surplus gasfield equipment and are in the midst of entertaining offers on $100,000 of natural gas wells in central Alberta, which we hope to close by June 30, 2002.

Increased gas holdings

Needless to say, fiscal prudence will continue to be a watchword at Mera even when natural gas prices improve. Prices have already begun to escalate. They rose from $3.09 in December 2001 to $4.10 in May 2002 and a conservative estimate projects them to settle in the $5.00 to $5.35 range for the remainder of this fiscal year.

In light of these prices Mera remains optimistic about its focus on natural gas. As we have said before we believe this commitment removes us from the uncertainties of international oil prices and underlies our belief that natural gas will continue to be in demand around the world as an efficient and clean-burning alternative to other fuels. To this end we took steps towards developing the promise of our Leader, Saskatchewan properties in 2001. We increased our land holdings from 53 to 57 sections, or 36,480 acres, and finished shooting 186 kilometers of seismic to identify new drilling targets, several of which are prospective for Viking gas. We now have approximately 400 locations for commercial Milk River gas.

Mera remains optimistic about its focus on natural gas...

Enhanced production

To take full advantage of an improved natural gas market we are endeavoring to enhance our production on existing properties and identify the potential for new prospects that can be developed at little cost to Mera.

For example, 40 farmed-out shallow gas wells were drilled in Leader during 2001 at no cost to Mera, while keeping 20% of the estimated production. We were carried for $1.14 million of a $5.7 million drilling program, which is thus far producing 600 mcfpd, 120 mcfpd netted to Mera. With well cleanouts now underway we expect that figure to increase by 50-60 boepd and to add 20 boepd more when a second round of drilling of 8-12 shallow wells takes place by the end of second quarter 2002. Yet another farmout -- dependent upon increased production from existing shallow wells following a workover project now in progress -- will see up to 25 shallow wells drilled at little or no cost to Mera.

Two of the three deep Leader wells drilled by Mera, which experienced declining production or were shut in during the final quarter of 2001 and the first quarter of 2002 due to low gas prices and high operating costs, have since been brought back on line and are producing 400 mcfpd (65 boepd). Increased gas prices and the installation of the nearby water disposal well already mentioned have made these wells more cost effective.

With the restoration of the two Viking wells' production and increases out of our North Darwin properties from the installation of a new compressor and well workovers the company's production is starting to return to 2001 levels. As of May 2002 it was at about 300 boepd. These results should be reflected in our second quarter report.

Fortunately Mera has a proven land base with considerable upside. Our early 2001 drilling program in Leader identified Milk River gas on one of three deep tests and on two of three shallow tests, providing Mera with valuable information on the northern commercial limits for Milk River gas and proving up a significant portion of our lands with an additional 400 shallow well locations. In fact, we have identified three more promising Viking anomalies. In our northern Alberta Darwin property we see an opportunity to drill one or more new wells and tie in one existing gas well this coming winter. In South Darwin a recently installed compressor has enhanced the economics of tieing-in 4 shut in wells (80% Mera), which could add 500-750 mcfd to our production next winter.

Mera has a proven land base with considerable upside

Unfortunately we do not have the resources to develop our prospects at this time. The engineers will not give us proven reserves until new wells are drilled and the existing ones tied in and the banks will not advance funds until they see six months of production. In Leader alone we would need some $25.0 million to cover the drilling of 250 to 400 shallow wells and tie-ins, which would produce between 10-20 mmcfpd. Our Darwin program would require a capital expenditure of $0.7 million. Since all the cash flow we normally dedicate to exploratory drilling has been targeted to pay down our credit lines, our only options are to raise new capital, or farm out drilling for testing in 2002. Should gas prices and production continue to rise, Mera would return to exploration and development on a much larger scale.

Mera's Colombia, South America Salinas concession has become an even more attractive candidate for farm out or sale. Mera – the project operator, with a one-third working interest – and Calgary partner Millennium Energy Inc. have a 30 year concession, called Salinas, in a 324,857-acre parcel of land estimated to contain up to 9 trillion cubic feet (tcf) of reserves. This property occupies the key onshore acreage of the Guajira basin, which the Colombia government estimates contains 90% of the country's accessible gas reserves. So far two pipelines, connected to Colombia's major markets, already run through or adjacent to our property. In 2001 Texas Petroleum (Chevron/Texaco), ECOPETROL and PDVESA (Colombia and Venezuela's state oil companies) proposed a pipeline through our concession to Lake Maracaibo in Venezuela, which if built, will open an important export market for Mera's Salinas gas, in addition to ever-increasing gas demand within Colombia.

Nevertheless Colombia's civil war, rampant unemployment, economic uncertainties and active guerilla movement continue to pose dangers to any company choosing to operate there. Mera has therefore chosen to write down its interests in Colombia and no longer carries any value on its books for these assets. Should we be successful in finding a joint venture partner, we will proceed with development. If not Mera is prepared to put on hold further financial commitments in Colombia until such time as the political situation stabilizes.

In closing I would like to thank our dedicated staff, consultants and directors, who provided valuable contributions to your company's stability during a difficult year. But more importantly I would like to express my appreciation to our shareholders who have been extremely patient during the past 12 months.

Mera is a 100% natural gas company. With gas prices rapidly rising, I believe we can all look forward to a more profitable year in 2002.

On behalf of the board

(signed)

Robert D. McLeay, P.Geol.
President and CEO
May 17, 2002

Report on Operations

Leader, Saskatchewan

Location: North of Burstall, Saskatchewan, about 95 kilometres northeast of Medicine Hat, Alberta

Land Holdings: 36,480 gross acres 30,336 net acres in 57 sections

Working Interest: 100% in 45 sections, plus 20% in 12 sections

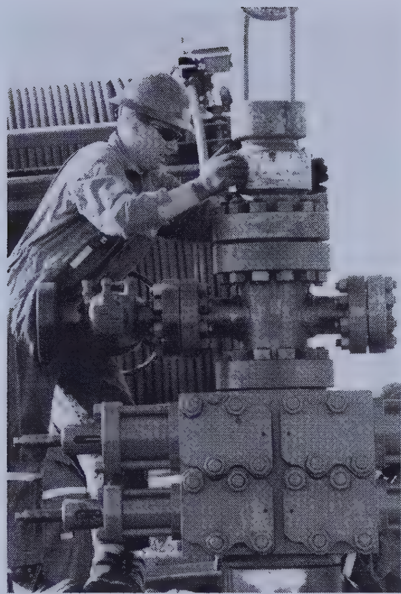
2001 Production: 870 mcfpd (145 boepd)

2001 Gross Revenues: $1.8 million

- Entered the 2001 year with two Viking wells in production at 200 boepd.
- Increased land holdings from 53 to 57 sections, or 36,480 acres.
- Finished shooting 186 kilometers of seismic to identify new drilling targets.
- 5 sections of farm out lands drilled, cased, frac'd and tied into a central compressor by Quartus at a cost of $5.7 million in mid-2001 (Mera carried for its $1.14 million obligation).
- Mera 100% financed a seven-well program in 2001 —

  - Produced a Viking gas well, a Mississippian Bakken dry hole, a Viking dry hole and four shut in shallow Milk River gas wells.

  - One of the three deep wells encountered commercial gas .



- Milk River gas encountered on two of deep tests and on two of the three shallow tests, providing Mera with valuable information on the northern commercial limits for Milk River gas and proving up a significant portion of its lands.

- Estimates 400 locations for commercial Milk River gas.

- A third Viking well came on stream in July 2001.

- Mid 2001 production declined in two of Mera's Viking wells. Compression applied to offset declines.

- In third quarter GEM Engineering built and financed a $1.2 million, 5-7 mmcfpd facility at Mera's 9-7-20-28 W3 plant site to handle shallow gas and Viking production. Mera pays all-inclusive fee of $0.45/mcf for compression, dehydration, well operating and all chemicals.

- Late November gas from the 40 farmed out shallow gas wells began production through new Leader plant at 1.2 mmcfpd, 240 mcfpd net to Mera.

- High-water production from Mera's 13-19-21-28 W3 well dropped gas production from 1.2 mmcfd for the first part of 2001 (200 boepd) to 200 mcfpd at year-end. It was shut-in end of March 2002, but identified as good candidate for re-drill and/or re-completion as only 20-30% of gas in place recovered so far. Brought back on stream May 13, 2002 at 150 mcfpd.

- Mera 8-20-20-28W3 Viking well shut-in due to high water handling costs and low gas prices. Brought back to early 2001 production rates at 250-270 mcfpd May 12, 2002.

Darwin, Alberta –

Location: 96 kilometers north of Peace River, Alberta

Land Holdings: 25,600 gross acres/7,431 net acres in 40 sections

Working Interest: Ranging from 12% to 100% and averaging 29%

2001 Production: 915 mmcfpd (153 boepd)

2001 Gross Revenues: $1.6 million

- Northern Alberta Darwin gas operation (12% interest in 7 wells and 8% in a 20 mmcfpd gas plant) continued to be profitable.

Two Mera wells were brought back on line May 2002 at 400 mcfpd (65 boepd)

Pam Vermeulen, Land Administrator

- A lingering compressor problem combined with normal declines for the field of 23%, cut production to 750 mcfpd (125 boepd) in the first quarter of 2002.
- Compressor problem resolved with a completely redesigned and rebuilt facility, which began operations in March-April of 2002.
- A recently installed compressor in the South Darwin area enhanced the economics of tieing-in 4 shut in wells (80% Mera).

Other Alberta Properties –

- Mera holds various interests in 6 non-operated gas wells at Crystal, Ghostpine, Huxley, Enchant and Sylvan Lake and one Mera operated well at Sylvan Lake.
- During 2001 these properties generated gross revenues of \$0.3 million and averaged 24 boepd.

Cabri Lake, Saskatchewan --

- Early 2001 acquired a 7-section block of land 20 kilometers north of Leader near Cabri Lake, in a virtually unexplored area.
- Reprocessed and reinterpreted 20 kilometers of seismic.
- Let lease lapse after capital budget slashed and seismic disappointing.
- To re-look at this area when higher gas prices return.

Salinas concession in Guajira, Colombia –

Location: Guajira basin in northern Colombia, South America

Land Holdings: 324,857 gross acres (equivalent to 507 sections or 14.1 townships) 108,285 net acres

Working Interest: 33.333% working interest plus a 2% gross overriding royalty on the remaining 66.667%

- In northern Colombia, South America, Mera and its partner still sitting on a gas elephant.

- Reprocessed more than 1,100 kilometers of seismic (well beyond our 300-kilometre requirement).

- Identified 3 new gas plays, containing potential reserves of 0.3 tcf to 9 tcf.

- In February 2002, Mera submitted a required environmental report to Colombia's Minister of the Environment for approval. Report took an in-depth look at surface issues and involved extensive negotiations with area indigenous people interested in jobs, infrastructure development and other social benefits of a potential drilling program. Also identified 6 well locations, which once approved should lead to a drilling license later in 2002.

- In mid-2001, three parties – Texas Petroleum (Chevron/Texaco), ECOPETROL and PDVESA (Colombia's and Venezuela's state oil companies, respectively) – proposed a pipeline through our concession to Lake Maracaibo in Venezuela. If this pipeline were built, it would open an important export market for Mera's Salinas gas, in addition to ever-increasing gas demand within Colombia.

Mera and its partner are still sitting on a gas elephant in Colombia, South America

- By the end of 2002, Mera would like to drill an 8,000-foot exploration well, which would cost $2 million (US) if dry and $3.2 million if completed.

- To drill that well, tie in the two existing shut-in wells and build a 50 mmcfpd gas plant and connecting pipeline would cost a total of US $8-10 million.

- Mera has the option of shooting 50 kilometers of new seismic in lieu of drilling.

- Given the current difficulty of raising capital for Colombian ventures, Mera and its joint venture partner, Millennium Energy are now looking at farming out this development or selling the property.

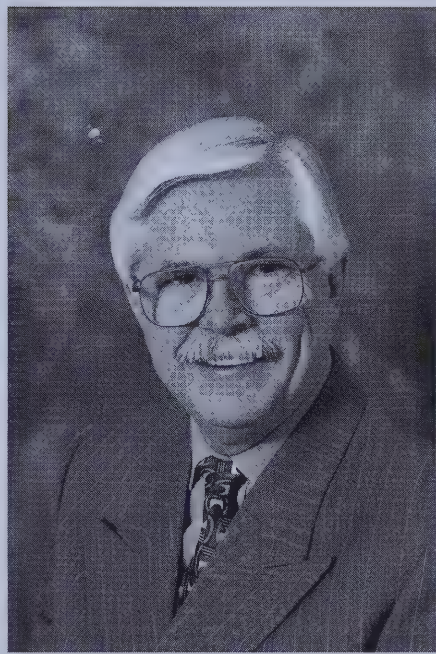
- Mera has written down its interests in Colombia and no longer carries any value on its books for these assets.

Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with Mera's Audited Financial Statements contained later in this Annual Report. Mera's financial statements are prepared in accordance with Canadian generally accepted accounting principles and presented in Canadian dollars.

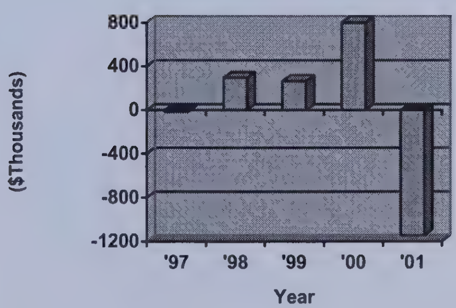
Financial Results

Cash flow from operations decreased marginally in 2001 to $1,902,660 ($0.25 per share) from $1,905,514 ($0.25 per share) in 2000, which was 112% up from $899,885 ($0.12 per share) in 1999. After reflecting a non-cash ceiling test write-off of $2,999,805 ($1,830,003 or $0.24 per share, after taxes), Mera reported an after-tax loss of $1,147,960 in 2001 (a loss of $0.15 per share), compared to a net income of $829,694 ($0.11 per share) earned in 2000 and $264,404 ($0.04 per share) in 1999.

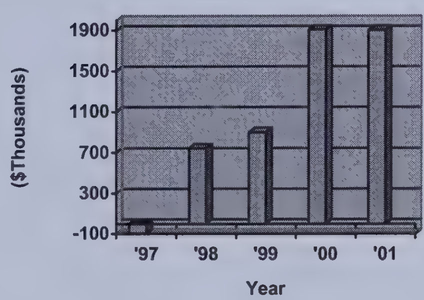


Philip Lawton, C.A.,
Vice President Finance & CFO

Net Income (Loss)



Cash Flow (Deficiency) From Operations



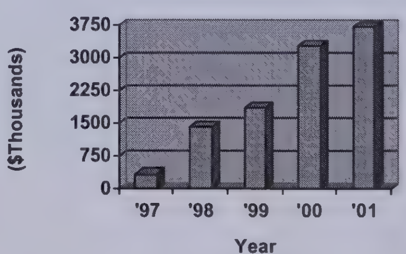
As demonstrated in the following table of quarterly results, 2001 started out as a robust year with improved production volumes and high gas prices. However, by late spring, Mera began experiencing production declines, increased costs and cratering gas prices, culminating in the fourth quarter ceiling test write-off discussed above and in Note 3 to the Audited Financial Statements.

	Revenues	Volumes (boepd)	Gas Price (per mcf)	Cash Flow (Deficit) from Operations	Net Income (Loss)
2000					
1st quarter	$ 525,506	322	$2.73	$ 243,269	$ 48,113
2nd quarter	598,319	296	3.45	250,715	55,957
3rd quarter	642,077	254	3.12	364,083	135,618
4th quarter	1,522,495	377	7.25	1,047,447	590,006
Full Year	$3,288,397	312	$4.61	$1,905,514	$ 829,694
2001					
1st quarter	$1,739,298	397	$8.08	$1,225,940	$ 641,663
2nd quarter	1,058,012	351	5.46	659,165	248,658
3rd quarter	522,710	296	4.24	40,149	(88,291)
4th quarter	398,396	246	2.88	(22,594)	(1,949,990)
Full Year	$3,718,416	322	$5.22	$1,902,660	($1,147,960)

Oil and gas revenues

Mera's gross 2001 revenues, before royalties, increased 13% to $3,718,416 from $3,288,397 in 2000, which were 77% higher than the $1,857,496 earned in 1999. Natural gas and associated liquids accounted for 100% of gross revenues in 2001, compared with 93% in 2000 and 91% in 1999. During the fourth quarter of 2001, Mera sold its last oil property, Calmar, and thus all revenues are now entirely from natural gas and associated liquids.

Gross Oil and Gas Revenues (Before Royalties)



	1999	2000	2001	2001 % Change
Gross oil and gas revenues	$1,857,496	$3,288,397	$3,718,416	13
Volumes				
Natural gas (mcfpd)	1,865	1,752	1,896	8
Oil & NGLs (bopd)	24	20	6	(70)
Combined (boepd)	335	312	322	3
Average prices				
Natural gas ($/mcf)	$2.40	$4.61	$5.22	13
Oil & NGLs ($/bbl)	23.71	41.60	29.50	(29)
Royalty expense				
Crown royalties	$340,582	$635,396	$558,999	(12)
Less ARTC	(235,536)	(165,520)	(120,032)	(27)
Freehold & overriding royalties	70,739	101,868	103,565	2
All royalties	175,785	571,744	542,532	(5)
Net oil and gas revenues	$1,681,711	$2,716,653	$3,175,884	17
Average net royalty rate	9.5%	17.4%	14.6%	
ARTC rate	68.9%	25.8%	25.0%	

Despite the increased gas production following start-up of the Leader Viking gas wells in October 2000, Mera began experiencing declining daily production during the second quarter of 2001. Attempts by the operator of the Darwin, Alberta wells and facilities in early 2001 and again in early 2002 to arrest production declines through improvements to the compressor were only partially successful. Darwin production has continued its normal decline.

At Leader all 3 Viking wells have experienced significant pressure declines. Two of the wells, including Mera's primary producer in the area 13-19, started producing large quantities of water. In December 2001, production commenced from 40 shallow wells (Mera 20%) drilled and tied-in at no cost to Mera through a farmout. Production has declined significantly following start-up and the operator is undertaking remedial action in May 2002.

Myrna Lamb, Office Administrator

Mera's gas focus was rewarded in the fourth quarter of 2000 and the first half of 2001 with a strong rise in market prices. Natural gas prices increased 92% in 2000 to $4.61 per mcf from $2.40 in 1999. The average gas price received in 2001 increased an additional 13% to $5.22 per mcf. During the fourth quarter of 2000 gas prices averaged $7.25 per mcf, while average gas prices of $8.08 and $5.46 were received during the first and second quarter of 2001 respectively.

By early summer 2001, the industry began experiencing considerable downward pressure on gas prices, more than would typically be expected as a result of normal seasonality factors. While it was not apparent at the time, management now believes that the sharp decline in prices may have been caused by market activity initiated by Enron Corp of the United States, which was a dominant marketer of natural gas at the time and collapsed later in the year. Mera's natural gas prices fell to $4.24 in the third quarter and $2.88 in the fourth. Gas prices during the first quarter of 2002 were slightly higher, but substantially below seasonal expectations. By the second quarter of 2002, the industry began experiencing upward movement of gas prices; management suspects this relates in part to lower Enron holdings of 2002 summer gas contracts. If so, this would support management's belief in a more normal progression of the longer-term upward trend in gas prices over coming months and quarters.

Most of Mera's gas is sold at spot prices, although its Darwin gas continues to be contracted on a long-term basis to an industry aggregator, and tends to receive somewhat less than if it were sold at spot prices. Mera does not participate in the futures market or hedge its prices. While the aggregator may hedge a portion of its sales, Mera is not advised of this and does not participate in such decisions.

Average royalties, net of the Alberta Royalty Tax Credit (ARTC), decreased 5% to $542,532 in 2001 or 14.6% of gross revenues. In 2000, average royalties had increased 225% to $571,744 (17.4% of revenues) from $175,785 (9.5% of revenues) in 1999. Alberta crown royalties are volume and price sensitive, increasing or decreasing as a percentage of revenues as oil and gas prices increase or decrease. The average Alberta crown royalty rate for gas was 29.6% in 2001, compared with 29.5% in 2000 and 26.9% in 1999. On the other hand, the ARTC for qualifying royalties declined from 68.86% in 1999 to 25.84% in 2000 and 25% in 2001. Our Saskatchewan crown royalty rate was 2.9% in 2000 and 4.0% in 2001, as most of Mera's gas qualified for incentive status, or was produced by low productivity wells.

Production expenses

Production expenses of $423,474 ($3.60 per boe) in 2001, while low by industry standards, increased 81% from $233,581 ($2.04 per boe) in 2000, which in turn were 2% higher than the $228,718 ($1.87 per boe) incurred in 1999. Current year expenses increased primarily due to higher maintenance and compression costs affecting most properties, and well workover, temporary compression equipment rental and significant water handling and disposal costs at Leader commencing mid-year. Late in the year, in conjunction with start-up of the 40 shallow gas wells (Mera 20%), Mera decommissioned its Leader gas facility. It joined with its joint venture partner in a third party well operating and custom processing arrangement, which covers most of Mera's operating costs, other than water handling and disposal, at a set rate per mcf.

Amortization and depletion expense and ceiling test write-off

Amortization and depletion expense (before a ceiling test write-down) increased 33% in 2001 to $825,478 from $619,799 in 2000, which was 17% higher than $528,940 in 1999. Amortization and depletion expense was $7.03 per boe in 2001 compared with $5.42 in 2000 and $4.33 in 1999. The rate has increased over recent years, as proved reserves additions have not been commensurate with the corporation's exploration and development expenditures.

As at December 31, 2001, Mera recorded a ceiling test write-down of $2,999,805, which was reflected as additional amortization and depletion expense. On an after tax basis, the ceiling test resulted in a charge of $1,830,003, or $0.24 per share ~ there was no impact on cash flow from operations or cash flow per share, however. Due to the deteriorating economic, political and security environment in Colombia, Mera decided to write-off at year-end its entire investment to date in the Colombian project, amounting to $256,000 before taxes ($0.02 per share after taxes); the Colombian write-off is included in the above ceiling test provision.

The ceiling test was calculated in accordance with the Full Cost Accounting Guideline for the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. While this guideline normally envisages the test being conducted using the oil and gas prices received as of the year-end date, during periods of rapidly fluctuating prices, the Corporation is allowed to use average prices received during a more representative period ending at any time prior to the issuance of the financial results to the public, such period not to exceed 12 months. Accordingly, Mera chose to use the average prices received during the 12 month period ending March 31, 2002, which reflects the impact of the two low price quarters, the fourth quarter of 2001 and the first quarter of 2002, but does not include the unusual high gas prices received during the first quarter of 2001.

To illustrate the impact on the ceiling test of this pricing assumption, Mera's year-end wellhead gas price was $3.06 per mcf, while the average price received during 2001 was $5.22 and the 12 month average used in the ceiling test was $3.79. Had Mera used the year-end price of $3.06, the ceiling test write-down would have been $4,044,746 before taxes. On the other hand, if Mera had used the 2001 average price ($5.22) as many companies have done, the ceiling test write-off would have been about $1.0 million before taxes, including the Colombian write-off discussed above. Ceiling test evaluations as at December 31, 2000 and 1999 confirmed that no write-offs were required at those dates.

General and administrative expenses

General and administrative expenses increased 47% in 2001 to $746,516 from $508,456 in 2000, which had increased marginally from $503,769 in 1999. On a boe basis, general and administrative expenses were $6.35 in 2001, $4.45 in 2000, and $4.12 in 1999. The increases reflect additional use of consultants for engineering, land, accounting and computer services due to expanded activities, increased compensation for the officers, higher insurance premiums, higher office costs, and significant increases in the cost of complying with regulatory requirements relating to public companies. Due to declining revenues, the Corporation commenced reducing general and administrative expenses in the fall of 2001, and is continuing to make reductions through the second quarter of 2002.

Interest expense

Interest expense primarily relates to the capital lease for the Darwin gas plant and the increased use throughout the period of the Corporation's bank line of credit, partially offset in 2001 by lower bank interest rates.

Income taxes

Income tax provisions, determined in accordance with the liability method of accounting, were a recovery of $774,663 in 2001, compared with expenses of $456,021 in 2000 and $106,541 in 1999. The effective income tax rates were 40.3%, 35.5% and 28.7%, respectively. These rates are lower than the applicable statutory rates, due primarily to the federal resource allowance exceeding crown royalties, net of ARTC, and a reduction in future tax liability of $31,362 due to a reduction during 2001 in the Alberta provincial tax rates for corporations.

To date Mera has not been cash taxable. As of December 31, 2001, Mera had tax deductions of approximately $3.7 million available for application in future years.

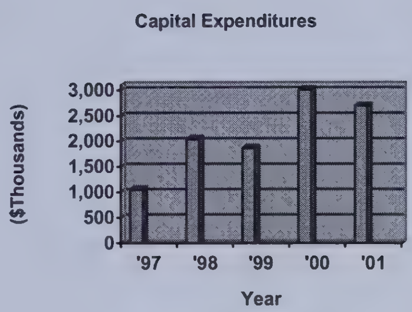
Netbacks

Mera's netbacks per boe are summarized in the following table.

	1999	2000	2001	2001 % Change
Oil & gas revenue (gross)	$15.21	$28.76	$31.65	10
Royalties, net of ARTC	(1.44)	(5.00)	(4.62)	(8)
Production expenses	(1.87)	(2.04)	(3.60)	76
Field netbacks	**11.90**	**21.72**	**23.43**	**8**
General and administrative	(4.12)	(4.45)	(6.35)	43
Interest	(0.61)	(0.74)	(0.97)	31
Other income	0.20	0.14	0.09	(36)
Cash flow from operations	**7.37**	**16.67**	**16.20**	**(3)**
Amortization and depletion	(4.33)	(5.42)	(7.03)	30
Ceiling test provision	—	—	(25.53)	—
Income (loss) before income taxes	**3.04**	**11.25**	**(16.36)**	**(245)**
Future income taxes (recovery)	0.87	3.99	(6.59)	(265)
Net income (loss) per boe	**$2.17**	**$7.26**	**($9.77)**	(235)

Capital expenditures

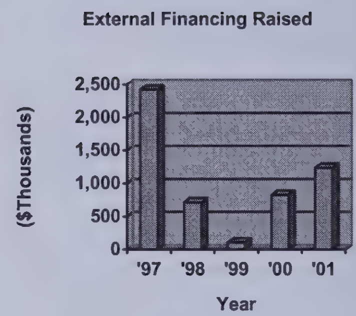
During 2000 and 2001, Mera's capital expenditures aggregated $5.7 million, including $0.7 million for land acquisitions, $0.6 million for seismic acquisition and evaluation, $2.5 million on exploration and delineation drilling, $1.6 million for gathering lines, pipelines, facilities and well equipment, and $0.2 million on the Colombian project. The bulk of the Canadian expenditures have been made on Mera's properties in the Leader, Saskatchewan area. During 2000 Mera sold its Calmar oil property, receiving net proceeds of $0.2 million.



External financing

Mera financed these capital expenditures through cash flow from operations (aggregating $3.8 million) and $1,850,000 of bank debt.

New equity of $209,248 was raised in 2001 through a private placement of shares and the exercise of stock options; no equity was raised in 2000. During the 2 years, repayments of $343,405 were made on the capital lease for the Darwin gas plant. In addition, $165,239 was spent during the 2 years under Normal Course Issuer Bids to purchase 216,500 shares in the open market for cancellation, at an average purchase price before expenses of $0.74 per share; the $99,789 excess of purchase price over average book value of these shares was charged to retained earnings.



Oil and gas reserves and land values

The following tables summarize information contained in an independent evaluation of Mera's Canadian oil and gas reserves and unexplored property values prepared by Reliance Engineering Group Ltd. of Calgary, Alberta effective January 1, 2002, using generally accepted engineering standards and following National Policy 2-B of the Canadian Securities Regulators.

	Oil & Gas Reserves Before Royalties			Oil & Gas Reserves After Royalties		
	Natural Gas mmcf	NGL mbbl	Equivalent mboe	Natural Gas mmcf	NGL mbbl	Equivalent mboe
Proven developed	1,673	17	296	1,372	12	240
Proven undeveloped	31	—	5	26	—	4
Total proven	1,704	17	301	1,398	12	244
Probable	2,719	—	453	2,454	—	409
Total proven plus probable	4,422	17	754	3,852	12	653
Total proven plus 50% probable	3,063	17	528	2,625	12	449

Reliance Engineering's estimate of the future net cash flows relating to these reserves and the market values of Mera's Canadian exploratory lands are summarized in the following table. Reliance Engineering did not evaluate the Salinas concession in Colombia; due to the deteriorating economic, political and security environment in Colombia, Mera has not assigned a value to this project as of the date hereof. Future net cash flows are after reflecting all future operating and capital costs, abandonment and site restoration costs, and royalties to the crown and others, net of estimated ARTC, but do not reflect future income taxes.

Future Net Cash Flows
(Escalated values including ARTC, but before income taxes)
$ Thousands, discounted at

	0%	10%	12%	15%
Reserves				
Proven developed	$4,063	$2,952	$2,812	$2,630
Proven undeveloped	31	18	16	13
Total proven	4,094	2,970	2,828	2,643
Probable	6,285	4,099	3,800	3,409
Total proven plus probable	$10,379	$7,069	$6,628	$6,052
Total proven plus 50% probable	$7,237	$5,020	$4,728	$4,348
Land values ~ Canadian properties only	$707	$707	$707	$707
Combined reserves and land values				
Total proven plus probable	**$11,086**	**$7,776**	**$7,335**	**$6,759**
Total proven plus 50% probable	**$7,944**	**$5,727**	**$5,435**	**$5,055**

Reliance Engineering used the following product prices in determining the future net revenues, but cautions that political and economic uncertainties, domestically and internationally, may result in prices differing significantly from its estimates.

	Reference Prices		Mera's Quality Adjusted Prices	
	Natural Gas AECO-C Spot (mcf)	Oil WTI (US$) (bbl)	Gas (mcf)	NGL (bbl)
2002	$4.20	$19.50	$3.94	$21.94
2003	4.35	20.00	4.10	22.40
2004	4.45	21.00	4.21	23.62
2005	4.50	21.50	4.28	24.31
2006	4.55	22.00	4.34	25.14
2007	4.60	22.50	4.40	25.98

Increasing 1.5% annually, thereafter

Liquidity and capital resources

At December 31, 2001, Mera's bank debt and capital lease obligation totaled $2,084,805. Including the excess of accounts payable over cash and accounts receivable at that date of $192,765, Mera's combined net liabilities were $2,277,570.

By May 1, 2002, Mera's had drawn $1,950,000 under its National Bank of Canada line of credit, the maximum allowable as at that date. The bank line of credit is demand in nature and secured by a general security agreement over all of Mera's assets. National Bank has advised Mera that it expects this line of credit to be repaid at the rate of $50,000 at each succeeding month-end, with a further $500,000 expected by July 1, 2002.

The Bank's next formal credit review for Mera is scheduled to be completed by July 1, 2002; during its most recent review, Mera understands that the Bank assumed a gas price for 2002 of approximately $3.25 per mcf. New accounting guidance recently published by the Canadian Institute of Chartered Accountants, requires that such demand revolving lines of credit be reported entirely within current liabilities, commencing with Mera's March 31, 2002 interim report to shareholders.

The Bank's required reductions in Mera's available line of credit have placed a significant constraint on the Company, as they are far in excess of the projected cash flow from operations during the first half of 2002. The Corporation is currently raising up to $720,000 of additional equity through a private placement of up to 2,000,000 shares at a price of $0.36 per share; the price was calculated using a 25% discount from market price at the date the price was set, being the maximum allowable discount permitted by the TSX Venture Exchange (formerly the Canadian Venture Exchange).

In addition, Mera has reduced its office expenses and management compensation. It is looking for opportunities to sell some of its assets, holding capital expenditures to a bare minimum, investigating new banking arrangements and refinancing of its Darwin gas plant lease, and attempting to farmout or sell its Colombian project. The present Darwin gas plant lease, which has a remaining balance at May 1, 2002 of $210,237, is scheduled to be fully repaid this year, including a final payment at year-end of $168,000. In Colombia, Mera has an expenditure obligation of approximately $0.3 million for the balance of 2002.

Outlook for 2002

Mera is not making specific forecasts of production volumes, revenues, cash flows or net income for 2002 and beyond, due to its current financial constraints, the volatility of the current commodities market, and the weakness in the Canadian capital markets for junior oil and gas producers. As of mid May 2002, gas prices on the futures market have strengthened to the $4.70 per GJ level for AECO-C Spot for summer deliveries and $5.75 per GJ for winter deliveries.

Business risks and uncertainties

Mera advises readers that this Annual Report contains a number of forward-looking statements that involve a number of risks and uncertainties. Such information, although considered reasonable by Mera at the time, may ultimately prove incorrect, too optimistic or too pessimistic, and actual results may differ materially from those anticipated in the statements. For this purpose, any statements contained within this Annual Report that are not statements of historical fact may be deemed forward looking.

In common with all public oil and gas companies, and especially smaller companies, Mera is subject to considerable market volatility affecting the prices received for its production, foreign exchange and interest rates, the availability and cost of capital financing, and market liquidity for its common shares. Furthermore, high energy prices can lead to increased energy supplies, reduced economic activity, and increased conservation efforts, which then sow the seeds for lower energy prices. Mera does not participate in hedging of oil and gas prices, foreign exchange or interest rates, as it considers such activities to be highly risky and a distraction from its primary areas of focus.

The oil and gas business is also subject to a number of operational risks and uncertainties relating to such matters as exploration and development success, technical drilling and production performance and equipment failure including blowouts and fires, reserve recovery rates and timing, availability of third-party natural gas transportation, environmental damage, and competition with much larger and better-financed companies for scarce land, people and financial resources. To manage these risks and uncertainties, Mera relies upon the expertise and creativity of its human resources, the development of strategic relationships with industry partners, modern exploration, engineering and business technology, professional environmental sensitivity assessments, and public liability, property damage and business interruption insurance.

Furthermore, the oil and gas industry is subject to extensive regulatory environments and fiscal regimes, both in Canada and internationally, which are subject to changes that are potentially material to the Corporation, but beyond its control. In addition, in places such as Colombia, physical security of personnel and assets is a significant and costly concern.

Management's Report on the Financial Statements

The accompanying financial statements of Mera Petroleums Inc. and all the information in this Annual Report are the responsibility of management. The Board of Directors has approved the financial statements.

Management has prepared these financial statements in accordance with Canadian generally accepted accounting principles, and where alternative accounting methods exist, management has chosen those which it considers most appropriate in the circumstances.

Financial statements are not precise since they include certain amounts based on estimates and judgments; where applicable, such amounts have been determined by management on a reasonable basis to ensure the financial statements are presented fairly, in all material respects. Management has prepared the financial and operational information presented elsewhere in this Annual Report and has ensured it is consistent with the financial statements and/or the underlying accounting records.

Mera maintains systems of internal accounting and administrative controls, consistent with its size and reasonable cost, which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving these financial statements. The Board carries out this responsibility principally through its Audit Committee, which includes 2 non-management directors.

PricewaterhouseCoopers LLP, the independent external auditors appointed by the shareholders at Mera's most recent Annual General Meeting, has audited the financial statements in accordance with generally accepted auditing standards in Canada. PricewaterhouseCoopers LLP has full and free access to the Audit Committee and holds private discussions with the non-management members of the Committee.

(signed)

Robert D. McLeay, P. Geol
President and Chief Executive Officer

(signed)

Philip R. Lawton, C.A.
Vice President and
Chief Financial Officer

PRICEWATERHOUSECOOPERS

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April 26, 2002

Auditors' Report

To the Shareholders of
Mera Petroleums Inc.

We have audited the balance sheet of **Mera Petroleums Inc.** as at December 31, 2001 and 2000 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

BALANCE SHEET

	As at December 31 2001	2000
Assets		
Current assets		
Cash	$ 20,341	$ 39,187
Accounts receivable	291,296	862,597
Prepaid expenses and deposits	23,899	20,435
	335,536	922,219
Capital assets (Note 3)	5,190,290	6,311,739
	$ 5,525,826	$ 7,233,958
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 504,402	$ 1,340,495
Bank indebtedness, due within one year (Note 4)	800,000	—
Current portion of capital lease debt (Note 5)	234,805	68,968
	1,539,207	1,409,463
Bank indebtedness, not due within one year (Note 4)	1,050,000	825,000
Capital lease (Note 5)	—	234,805
Provision for site restoration costs	71,036	67,850
Future income taxes (Note 7)	558,056	1,280,634
	3,218,299	3,817,752
Shareholders' equity		
Share capital (Note 6)	2,378,000	2,262,786
Retained earnings (deficit)	(70,473)	1,153,420
	2,307,527	3,416,206
	$ 5,525,826	$ 7,233,958

Approved by the Board of Directors:

(Signed)
Robert D. McLeay, P. Geol
Director

(Signed)
Philip R. Lawton, C.A.
Director

See accompanying Notes

STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31 2001	2000
Revenue		
Oil and gas revenues	$ 3,718,416	$ 3,288,397
Royalties, net of Alberta Royalty Tax Credit	(542,532)	(571,744)
	3,175,884	2,716,653
Other income	10,969	15,573
	3,186,853	2,732,226
Expenses		
Production	423,474	233,581
General and administrative	746,516	508,456
Amortization and depletion (Note 3)	3,825,283	619,799
Interest	114,203	84,675
	5,109,476	1,446,511
Income (loss) before provision for income taxes	(1,922,623)	1,285,715
Future income tax expense (recovery) (Note 7)	(774,663)	456,021
Net income (loss)	(1,147,960)	829,694
Retained earnings, beginning of year	1,153,420	347,582
Premium on common shares purchased and cancelled	(75,933)	(23,856)
Retained earnings (deficit), end of year	$ (70,473)	$ 1,153,420
Income (loss) per share, basic	**($0.15)**	**$0.11**
Income (loss) per share, diluted	**($0.15)**	**$0.10**

See accompanying Notes

STATEMENT OF CASH FLOWS

	Year ended December 31 2001	2000
Operating activities		
Net income (loss) for the year	$ (1,147,960)	$ 829,694
Add non-cash items		
Amortization and depletion	3,825,283	619,799
Future income tax expense (recovery)	(774,663)	456,021
Cash flow from operations	**1,902,660**	**1,905,514**
Net change in non-cash working capital	(162,718)	(273,738)
	1,739,942	1,631,776
Financing activities		
Drawdown of bank line of credit	1,025,000	825,000
Issue of common shares, net of costs	209,248	—
Repurchase of common shares, net of costs	(123,483)	(41,756)
Repayments on capital lease	(68,968)	(274,437)
	1,041,797	508,807
Investing activities		
Capital expenditures	(2,695,047)	(3,009,538)
Proceeds on sale of capital assets	—	232,723
Net change in non-cash working capital	(105,538)	464,655
	(2,800,585)	(2,312,160)
Decrease in cash during the year	(18,846)	(171,577)
Cash, beginning of year	39,187	210,764
Cash, end of year	$ 20,341	$ 39,187
Cash flow per share, basic	**$0.25**	**$0.25**
Cash flow per share, diluted	**$0.24**	**$0.23**

See accompanying Notes

NOTES TO THE FINANCIAL STATEMENTS
Years ended December 31, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mera Petroleums Inc. ("Mera" or the "Corporation") was incorporated on April 29, 1993 under the Business Corporations Act (Alberta) and is listed for trading on the Canadian Venture Exchange. It is involved in the exploration and development of petroleum and natural gas reserves in western Canada and Colombia, South America.

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The more significant accounting policies are as follows:

Joint activities

Many of the exploration and production activities of the Corporation are conducted jointly with others. Accordingly, these financial statements reflect only Mera's proportionate interest in such activities.

Petroleum and natural gas properties

Mera uses the full-cost method of accounting for oil and gas activities, whereby all costs relating to the acquisition of, exploration for, and development of petroleum and natural gas reserves are capitalized. Such costs include lease and land acquisitions, geological and geophysical activities, carrying charges on undeveloped properties, the drilling of productive and non-productive wells, production equipment, and directly-related overhead charges.

Costs are currently accumulated in separate cost centres for activity in Canada and Colombia, respectively. Total capitalized costs, plus a provision for necessary future development expenditures, are depleted and amortized using the unit of production method, based on estimated proven oil and gas reserves before royalties. For the depletion and amortization calculation, proven oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content. The costs of significant unevaluated properties are excluded from the depreciation and depletion base, except for any portion of the costs which are considered impaired.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized except where the sale results in a change of 20% or more in the rate for depletion and amortization, in which case a gain or loss on disposal is recorded.

In applying the full cost method of accounting, Mera performs an annual ceiling test evaluation for proven cost centres. This test limits the net book value of capitalized costs to an amount equal to the lower of cost or estimated fair value of unproven properties, plus the estimated undiscounted and unescalated future net revenues from the proven oil and gas reserves, based on year-end prices and costs, and after deducting estimated future development and site restoration expenditures net of salvage values, relating to the proved reserves, as well as future administrative and financing costs and income taxes relating to these properties and reserves. Should this comparison indicate an excess carrying value, a write-down would be recorded. The recorded value of unproven cost centres is evaluated at least annually for impairment, and the carrying value of such cost centres is limited to the original costs incurred less any impairment to date.

Gas plants and related pipelines

Investments in significant gas plants and related pipelines are depreciated at the rate of 6% annually, on a straight-line basis.

Future abandonment and site restoration costs

Estimated future abandonment and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by the Corporation based on current regulations, costs, technology and industry standards. The annual charge is included in the amortization and depletion expense; actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

Office furniture, equipment and leasehold improvements

Office furniture, equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided on a declining balance basis at 30% for computer equipment and 20% for office furniture and equipment. Leasehold improvements are amortized on a straight-line basis over the remaining term of the related office lease.

Income taxes

Income taxes are recorded using the liability method of accounting. Under this method, future income tax liabilities are determined by applying the tax rate at the end of the accounting period to the temporary difference between the accounting and tax bases of the Corporation's assets and liabilities. The future benefit of current and past tax losses is recognized whenever it is more likely than not that the Corporation will be able to generate sufficient future taxable income to utilize the tax losses before they expire.

Flow-through shares

From time to time, Mera issues flow-through common shares and agrees to renounce qualifying expenditures to the purchasers of the shares, in an amount equal to the purchase price of the shares. As a result, the income tax deductions associated with the expenditures flow through to the investors rather than the Corporation. Accordingly, Mera records the tax effect of the renouncement, as soon as the expenditures or renouncements are made, as a reduction of share capital and an increase in the balance sheet provision for future income taxes.

Stock option plan

Mera has a stock option plan for directors, officers, employees and consultants of the Corporation. No compensation expense is recognized when stock options are issued or exercised. The consideration paid upon exercise of stock options is credited to share capital.

Measurement uncertainty

The amounts recorded for amortization and depletion of petroleum and natural gas properties and equipment, and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

2. CHANGE IN ACCOUNTING POLICY – EARNINGS AND CASH FLOW PER SHARE

Effective January 1, 2001, Mera adopted new accounting recommendations of the Canadian Institute of Chartered Accountants relating to the calculation and disclosure of earnings and cash flow per share information. These recommendations have also been applied retroactively. Accordingly, diluted per share results are now calculated using the "treasury stock method" rather than the "implied earnings

method". The treasury stock method recognizes the use of proceeds that could be obtained upon the exercise of options and warrants and assumes that such proceeds were used to purchase common shares for cancellation at the average market price during the period. Under the former method, fully diluted income (loss) and cash flow per share would have been ($0.15) and $0.22 per share, respectively, in 2001 ($0.10 and $0.23 per share, respectively, in 2000).

3. CAPITAL ASSETS

	December 31, 2001		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Petroleum and natural gas properties and equipment			
Canada	$7,999,308	$3,751,579	$4,247,729
Colombia	256,000	256,000	—
Gas plants and pipelines			
Canada	2,182,426	1,296,407	886,019
Furniture and equipment	124,945	68,403	56,542
	$10,562,679	$5,372,389	$5,190,290

	December 31, 2000		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Petroleum and natural gas properties and equipment			
Canada	$5,503,839	$1,332,455	$4,171,384
Colombia	144,909	—	144,909
Gas plants and pipelines			
Canada	2,095,460	168,691	1,926,769
Furniture and equipment	117,823	49,146	68,677
	$7,862,031	$1,550,292	$6,311,739

Capital assets of $902,022 at December 31, 2001 relate to the North Darwin gas plant and facilities which are subject to the capital lease (Note 5).

In 2001, Mera calculated its year-end ceiling test using the average wellhead gas price ($3.79 per mcf) received for the twelve month period ended March 31, 2002, as permitted under the Full Cost Accounting Guideline of the Canadian Institute of Chartered Accountants, rather than the market price as at December 31, 2001. Management believes that its December 31, 2001 market gas price ($3.06 per mcf at the wellhead) was unduly influenced by the activities and collapse of Enron late in the year. Management notes that the twelve-month average price is conservative, reflecting the low market prices experienced during the final quarter of 2001 and the first quarter of 2002, and excluding the impact of the unusually high gas prices enjoyed during the first quarter of 2001.

Accordingly, Mera recognized a pre-tax ceiling test write-off of $2,999,805, which has been reflected as additional amortization and depletion expense, resulting in an after tax write-off of $1,830,003 ($0.24 per share). This write-off includes 100% of the costs incurred to date for the Colombian project. Had the Corporation used the December 31, 2001 market price of $3.06 per mcf, the ceiling test write-off would have been $4,044,746.

4. BANK REVOLVING CREDIT FACILITY

As at December 31, 2001 Mera had a revolving demand line of credit of $2,000,000 with the National Bank of Canada, which was secured by an assignment of accounts receivable and a general security agreement over all assets of the Corporation, subject to the prior security relating to the capital lease on the North Darwin gas plant (Note 5). The bank has indicated that this line of credit will reduce by $50,000 per month commencing April 30, with an additional $500,000 reduction on July 1, 2002; its next formal credit review is scheduled to be completed by July 1, 2002. New accounting guidance recently published by the Canadian Institute of Chartered Accountants, and effective January 1, 2002, will require that such demand revolving lines of credit be reported entirely within current liabilities, commencing with Mera's March 31, 2002 interim report to shareholders.

5. CAPITAL LEASE

In 1997, Mera obtained a $1 million capital lease to assist in the financing of its interest in the North Darwin gas plant, gathering facilities and pipeline. The lease carries an interest rate of 10% and principal repayments aggregating $234,805 are scheduled for 2002, including a final balloon payment of $168,000 due on December 30, 2002. The lease is secured by the gas plant, gathering system and pipeline, the related gas reserves, and the sales and transportation agreements.

6. SHARE CAPITAL

Authorized

Unlimited number of common shares.

Unlimited number of preferred shares with rights, privileges and conditions to be determined by resolution of the Board of Directors; no preferred shares have been issued to date.

Issued and outstanding common shares

	2001		2000	
	Shares	**Amount**	**Shares**	**Amount**
Balance, beginning of year	7,552,874	$2,262,786	7,610,874	$2,280,463
Exercise of share purchase options, for cash	177,000	58,100	—	—
Non flow-through shares, issued for cash	68,022	44,215	—	—
Flow-through shares, issued for cash	136,044	108,835	—	—
Tax effect of flow-through renunciations	—	(47,311)	—	—
Retirement of shares acquired under a Normal Course Issuer Bid	(158,500)	(47,550)	(58,000)	(17,400)
Share issuance costs, net of projected tax recoveries (2001 – $827; 2000 – $223)	—	(1,075)	—	(277)
Balance, end of year	7,775,440	$2,378,000	7,552,874	$2,262,786

Outstanding stock options

Mera's Board of Directors is authorized to award stock options from time to time to the directors, officers, employees and qualifying consultants of the Corporation. The maximum cumulative number which may be granted under the Corporation's stock options plan is 2,000,000, of which 803,000 are available for future granting. The exercise price of each option is set at the market price of the Corporation's common shares at the time of award. The options expire at the earliest of ten years from the date of award (five years for options granted prior to June 14, 2001) or 90 days following the termination of the individual's qualifying relationship with the Corporation.

On December 31, 2001, the following options to purchase common shares were outstanding and reserved for:

Number of Options	Exercise Price Per Option	Potential Proceeds	Expiry Date
52,000	$0.70	$ 36,400	May 13, 2002
150,000	0.75	112,500	September 30, 2002
190,000	0.52	98,800	October 5, 2003
150,000	0.63	94,500	September 29, 2004
20,000	0.65	13,000	June 22, 2005
365,000	1.23	448,950	June 14, 2011
170,000	0.65	110,500	October 9, 2011
1,097,000		$914,650	

None of Mera's stock options were "in the money" as at December 31, 2001.

The following table summarizes the changes in the number of stock options outstanding during the year.

	2001		2000	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	744,000	$0.56	719,000	$0.56
Granted	535,000	1.05	40,000	0.65
Exercised	(177,000)	0.33	—	—
Forfeited	(5,000)	0.65	(15,000)	0.63
Outstanding, end of year	1,097,000	$0.83	744,000	$0.56

Normal Course Issuer Bid

During 2001, Mera spent $123,483 acquiring 158,500 common shares at an average purchase price of $0.76 each, pursuant to two Normal Course Issuer Bids approved by the Canadian Venture Stock Exchange. The current Bid, which expires on September 12, 2002, permits the purchase of up to 376,500 common shares, of which 28,500 were purchased to December 31, 2001.

Private placement of common shares

During 2001, the Corporation sold 204,066 common shares under a private placement at an average price of $0.75 each raising proceeds of $153,050 before issue costs. Mera incurred flow-through renunciation obligations of $108,835 with respect to the private placement. Mera has renounced 100% of its obligation as of December 31, 2001; however, the bulk of the required qualifying expenditures had not been made at such date.

Average shares outstanding

The weighted average number of shares outstanding during 2001 and 2000 were 7,557,779 and 7,602,330 respectively. The diluted weighted average number of shares outstanding during 2001 and 2000 were 7,926,247 and 8,118,888 respectively.

Shareholder Rights Plan

Effective March 21, 2001, the Board of Directors implemented a Shareholder Rights Plan which was approved at the Annual and Special Shareholders Meeting on June 14, 2001. The purpose of the plan is to give adequate time for shareholders of the Corporation to properly assess the merits of a bid without undue pressure, to allow competing bids to emerge, and to give the Board of Directors time to consider alternatives to allow shareholders to receive full and fair value for their common shares. The plan defines the terms of a Permitted Bid in the event of a take-over offer for the Corporation and, among other conditions, requires that no shares be taken up under the Bid for a minimum of 60 days, and then only if a minimum level of shares has been tendered.

7. INCOME TAXES

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rate to income before income taxes. The difference results from the following:

	2001	2000
Statutory rate	43.47%	44.79%
Computed expected provision	($835,764)	$575,872
Increase (decrease) in taxes resulting from		
Resource allowance	(111,791)	(261,684)
Crown royalties, net of Alberta Royalty Tax Credit	192,385	210,457
Attributed Canadian royalty revenue	12,857	(95,348)
Reduction in Alberta provincial tax rate	(31,362)	—
Other	(988)	26,724
Provision for future income tax expense	($774,663)	$456,021
Effective tax rate	40.29%	35.47%

The balance sheet provision for future income taxes reflects the following:

	2001	2000
Capital expenditures deducted or renounced, in excess of amortization and depletion expense recorded	$1,755,545	$3,627,373
Tax losses not yet utilized	(180,011)	(180,011)
Share issue costs not yet deductible	(1,998)	(10,904)
Provision for site restoration expenses not yet deductible	(71,036)	(67,850)
Net temporary difference	$1,502,500	$3,368,608
Tax value at 43.47% (2000 – 45%)	$653,137	$1,515,874
Less impact on future resource allowance	(12,590)	(139,892)
Less impact of attributed Canadian royalty income	(82,491)	(95,348)
Provision for future income taxes	$558,056	$1,280,634

At December 31, 2001, Mera had tax deductions of approximately $3.7 million available for application in future years.

8. COMMITMENT

The Corporation is committed to lease office space for $5,509 per month until December 30, 2003; the remaining minimum lease payments are $132,216 over the balance of the term.

9. FINANCIAL INSTRUMENTS

Mera's financial instruments included in the balance sheet are comprised of accounts receivable, accounts payable, accrued liabilities, bank indebtedness and capital lease. The fair values of these financial instruments approximate their carrying amount due to the short-term maturity of the instruments and the current market rate of interest payable on the capital lease.

Virtually all of the Mera's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

10. SUPPLEMENTAL CASH FLOW INFORMATION

	2001	2000
Cash Interest paid	$114,277	$83,726
Cash income taxes paid	—	—

11. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform to the current year's presentation.

Corporate Information

Directors

Robert D. McLeay, P.Geol.
President & CEO
Mera Petroleums Inc.
Calgary, Alberta

Donald R. Getty, O.C.
President
Sunnybank Investments Ltd.
Edmonton, Alberta

Philip R. Lawton, C.A.
Vice President Finance, CFO
& Corporate Secretary
Mera Petroleums Inc.
Calgary, Alberta

Ronald T. Peirce, P.Geol.
President
Thyer Holdings Ltd.
Calgary, Alberta

David P Werklund
President, Chairman, & CEO
Canadian Crude Separators Inc.
Calgary, Alberta

Officers

Robert D. McLeay, P.Geol.
President & CEO

Philip R. Lawton, C.A.
Vice President Finance,
CFO & Corporate Secretary

Key Personnel

Laurie Hauck, Accountant

Rod Haverslew, Geologist

Hal Jamieson, Engineer

Myrna Lamb, Office Administrator

Mike Lock, Landman

Sharon Pearce-McLeay, Public Relations

Pam Vermeulen, Land Administrator

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